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TO: BOARD OF TRUSTEES, *COLLEGECOUNTS 529 FUND*

FROM: AKF CONSULTING GROUP

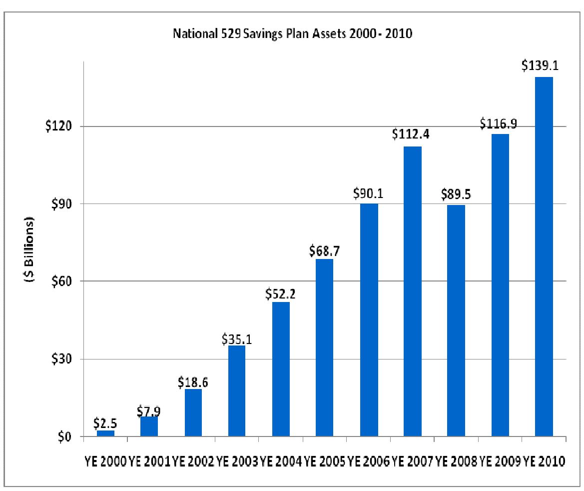
DATE: JULY 27, 2011

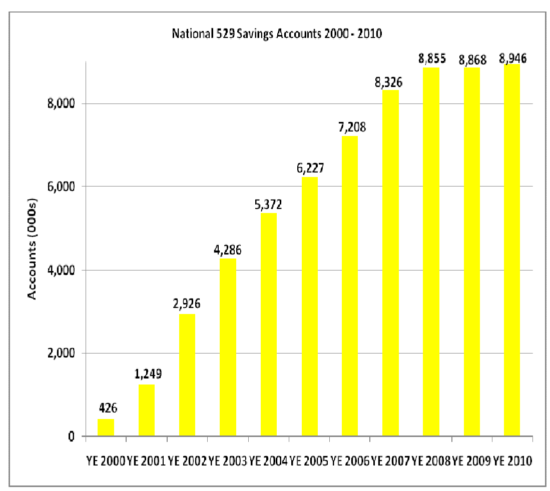
RE: 529 MARKET UPDATE

The college savings industry has been relatively "quiet" over the last year. Cash flows have increased although not to previous growth levels, the regulatory picture has been reasonably calm, and there have been just a handful of changes in program management. This memo provides a snapshot of the market, including the Alabama *CollegeCounts 529 Fund*; it highlights a few industry trends and developments; and it summarizes recent federal legislative and regulatory initiatives.

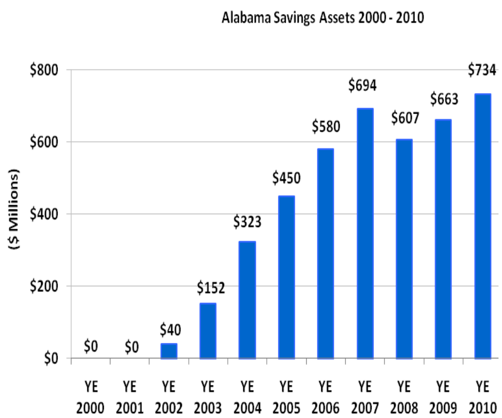
THE COLLEGE SAVINGS MARKET GENERALLY

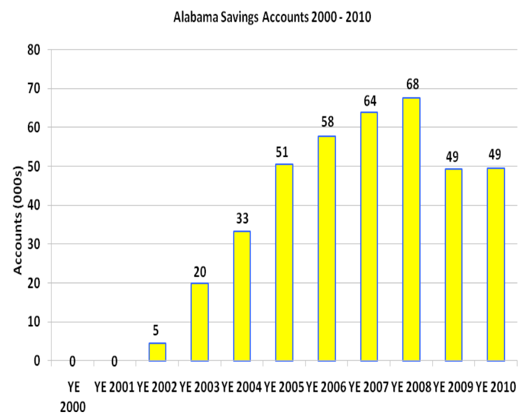
Following approximately eighteen months of volatile and largely negative markets from late 2007 through the first quarter of 2009, the college savings market rebounded through 2010, albeit modestly. The following charts show the absolute levels of national savings plan assets and accounts through December 31, 2010 as reported by the College Savings Plans Network ("CSPN"):





Assets and account in the Alabama 529 Savings Plan exhibited similar inflows, although of slightly different magnitudes, as shown by the CSPN asset and account charts on the top of the next page:





The Alabama savings assets grew by 11% through 2010 while accounts remained fairly constant with a growth rate of approximately 0.25%.[1] Comparatively, however, *CollegeCounts* was close to the national industry rates of 19% on assets and 0.88% on accounts. In both cases, the Alabama growth rates were improvements over prior years and, in light of the conversion of program management, we find the results encouraging.

We have not seen first or second quarter end results for 2011 so it is impossible to project how the 529 industry will finish the year. As a general matter, however, as long as the economy remains stagnant nationwide, we will continue to see downward pressure on account openings and asset flows into 529 plans. And yet, as the cost of higher education continues to escalate and while it remains in the headlines, there will be some portion of the saving population that chooses to utilize a 529 plan. The growth rate of 529 accounts must improve consistently over the next few years for overall industry growth to be meaningful, and that is the challenge for the entire industry.

INDUSTRY DEVELOPMENTS AND TRENDS

Federally Insured Products. Over the last two years nine state 529 plans introduced new federally insured bank and or credit union savings options, bringing the total number of plans offering these extremely conservative options to 16. For the most part, the federally insured products have been offered as savings account or certificate of deposit investment options within the existing equity and fixed income investment line-up for the 529 plan. Five state plans actually offer the insured products through completely separate 529 plans (e.g., Arizona, Colorado, Indiana, Montana and Virginia).

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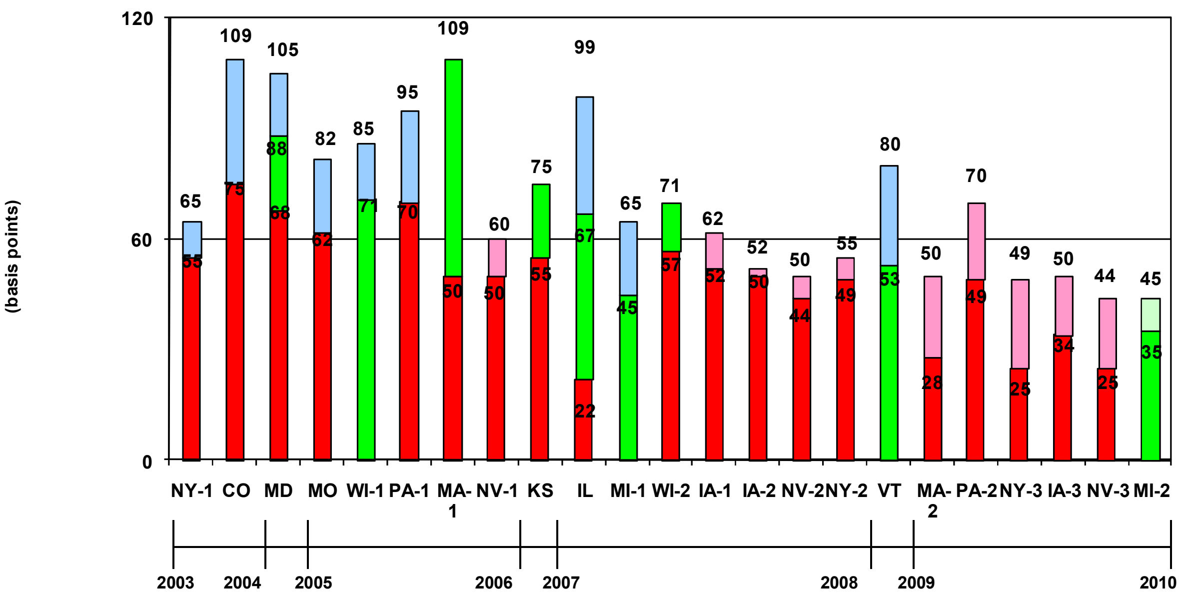
[1] We note that the apparent decrease in 529 accounts between 2008 and 2009 relates to a new reporting standard for CSPN and presumably for the *CollegeCounts* Program Manager.

The benefit of federally insured products is that investors with short term cash needs are able to avoid any principal risk. Additionally, from the state plan perspective, the federally insured partner could be a local banking institution or credit union (e.g., North Carolina, Ohio, Utah and Wisconsin). Ideally, by using a local bank or credit union, the state plan expands the in-state distribution channel for a direct-sold plan. In almost every case, the federally insured option is developed by just one banking institution rather than by multiple banks. This has been critical to ensuring that the federal insurance (from the Federal Deposit Insurance Corporation or the National Credit Union Administration) passes through the 529 trust to the individual investor.

Fee Reductions. We continue to see reduced asset fees for direct-sold 529 plans, whether in connection with program management rebids (e.g., Missouri reduced its fees from 62 basis points to 34 basis points in June 2010) or in the course of business (e.g., Michigan reduced its fees from 45 basis points to 35 basis points as did Connecticut). We note, however, that typically a fee reduction without a program management rebid is usually associated with an extension of an existing program management engagement. The following chart does not include all plans with fee reductions but it does demonstrate the downward trend generally:[2]



The chart also shows that the early fee reductions were accomplished by replacing actively managed investments with indexed investments. More recently, plans have even reduced the already low fees on indexed investment options in order to maintain overall competitiveness. As an aside, we note that two of the most significant recent program management re-bids – those in California and New York – each attracted just two bidders notwithstanding

[2] Green = actively managed or blended investments; Red = indexed investments; Light Red = prior indexed pricing; Blue = previously offered active investments

approximately $4 billion and $10 billion in direct-sold assets under management, respectively. We attribute the lack of widespread bidder interest to the fact that fees on each of these Plans were already extremely low. Perhaps the market in these instances is simply as low as it can possibly be.

Morningstar Rankings. We reported to the Board in October 2010 about the just-issued Morningstar 529 industry ratings. In our view, most of the plan ratings were based upon the level of asset fees charged and the underlying investment managers. In its October 2010 report, Morningstar noted that CollegeCounts was "much improved" as a result of Union Bank's program management. Over the last three months we have had several conversations with Morningstar about their review process for 2011. Their meetings with plan administrators and managers are already underway and they intend to release plan ratings as they finish each review (rather than en mass as they did last year). They will then do a combined release of all ratings in the fall, when they update their industry overview. If the Morningstar analysts have not yet contacted the State and or Union Bank, we would encourage the State to consider a proactive outreach. We believe that Alabama has a strong story to tell, which will result in an even stronger Morningstar review this year than last.

Program Manager Developments. As we mentioned above, California, Missouri and New York recently completed rebids of their 529 plans. Additionally, Ohio and Nevada introduced new advisor-sold plans. The following chart provides some of the results from key rebids or renegotiations over the last year:

State	Plan	Result
California	Direct and Advisor	Existing program manager does not re-bid TIAA-CREF wins Direct Plan on RFP No bids for Advisor Plan
Missouri	Direct and Advisor	Upromise retains Direct and Advisor Plans American Century is replaced by DWS on Advisor Plan
Montana	Direct and Advisor	Pacific Life exits 529 business Upromise takes over Direct Plan and shuts Advisor Plan
Nevada	Advisor	Putnam launches new Advisor Plan Existing Advisor investments convert from Columbia to Putnam
New York	Direct and Advisor	Upromise retains Direct and Advisor Plans JP Morgan replaces Columbia on Advisor Plan
Ohio	Advisor	BlackRock launches new Advisor Plan Assets in Putnam Advisor Plan convert to BlackRock

As you can see, some new players have entered or, in the case of JP Morgan, returned to the 529 industry. Still, the response to RFPs has been somewhat limited, which reinforces for us the strength of the bids received by the Alabama Board in late 2008.

FEDERAL INITIATIVES

At the May 2011 Treasury Management Conference of the National Association of State Treasurers, the College Savings Track included several panels on marketing and sales, as well as timely panels on investment structure and transition considerations. As always, the Conference also included a discussion on the legislative and regulatory 529 initiatives under consideration in Washington. The College Savings Plans Network has actively supported the introduction of HR 529, which essentially re-introduces HR 1351 from the last Congress.

HR 529 includes four important provisions. First, it provides a technical correction so that computers will be qualified expenses for 529 funds. Second, it proposes to increase allowable investment option changes from one to four annually. Third, it introduces the concept of a SAVERs Tax Credit for moderate income families (this is available now for retirement savings). And fourth, it would allow employers to match contributions of up to $600 per year in the 529 plan of its employees. The bill's prospects are unknown at this time, particularly in light of more pressing fiscal matters. Still, CSPN is intent on adding to the bill's sponsors so that once there is enough bipartisan support, it might move through Committee. At this point, the College Savings Foundation is not enthusiastically supporting HR 529 as they see issues with the employer provision and they think there's a quicker technical solution for computers and investment direction through the Treasury Department.

Another legislative initiative that is under discussion is an American Banker Association-sponsored bill to allow for bank 529 plans. Similar legislation was introduced and passed in the House last spring (HR 4178) on behalf of the Missouri Bankers Association but the companion bill lapsed in the Senate. CSPN believes similar legislation might be introduced this year.

Finally, on the regulatory front, the Municipal Securities Rulemaking Board ("MSRB") just released for public comment a proposed 529 data collection process that would create a centralized system for collection and dissemination of market information for 529 college savings plans. Both CSPN and the College Savings Foundation are planning to provide comments on the proposal, and we assume that in both cases the comments will be against an MSRB data collection initiative.

Thank you for this opportunity to provide a brief summary on the 529 industry. We will be happy to provide additional information on any topic included in this memo or to answer any questions the Board may have.